

THE INTRODUCTION OF A 3rd PARTY CERTIFICATION PROGRAM FOR SUPPLIERS OF CONSUMER PRODUCTS



Review and discussion of a pilot study by BRCGS and a leading global brand owner

April 2019

Executive Summary

The evidence, based on supplier performance data and survey, show significant benefits to both the brand owner and the supplier.

A better audit protocol that covers a wider range of operating processes, conducted by a better auditor will drive efficiency, quality and lower costs.

For one brand owner alone, we estimate that there is a direct cost saving of 234K USD per annum, whilst suppliers could save money on product testing.

Defective Return Rates have improved by 48%, a highly significant result for suppliers, and customer complaints have reduced by 5% using the new standard.

If the brand owner wishes to make the new program voluntary then there has to be incentives for a supplier to switch to a new audit protocol. If cost is a barrier then this can easily be rectified with a change in communication style and testing and inspection regime.

Background

As part of any brand owners' sourcing and procurement process, suppliers must undergo a 2nd party audit, usually conducted by a limited number of certification bodies.

The 2nd party audit program could cover both personal care & household and general merchandise and is usually a one-day audit that focusses on site standards, documented evidence of product compliance to legislation, areas of identified risk to the business (based on complaints and returns information) and product testing. The audit report is based on a weighted checklist format with a final score and pass/fail result.

As part of a brand owners' strategy to switch to internationally recognised standards, as seen with food safety and ethical, the Global Sourcing team wanted to adopt a new, more rigorous 3rd party approach and have been working with BRCGS over the course of the last 3 years.

This short paper is to review the results of a pilot programme against the brand owners' key objectives of efficiency, quality and cost to demonstrate the effectiveness of a new approach and the advantages and highlight some of the barriers of adoption.

2nd Party Audit Program

The current 2nd party audit programme is applicable to all Direct Import Factories (non-food and non-packaging) and is required prior to order commitment for new factories of all supplier classifications & retail markets. It is part of the three pre-qualification audits (Responsible Sourcing, Supply Chain Security & Safety and Quality).

The audit programme has several category variants and is broken down into sections with scores and a comments box.

The supplier will receive a score out of 100 which is also graded, of which, a score of 60 is a pass. If a supplier scores over 80 the facility will be audited once in every 2 years, not annually.

The costs of the audit are borne by the suppliers and the results recognised only by the specific brand owner.

In 2015 the Global Sourcing team questioned the validity of the audit and whether there was a more effective way of risk assessing suppliers and creating a better framework to improve supply chain assurance.

This retailer has traditionally taken a leadership role in product safety led by the US and were the first to adopt GFSI for food safety and 3rd party ethical standards, quickly followed by other retailers.

Introduction to BRCGS

BRCGS is a global market leading organisation that has built rigorous supply chain assurance programs. The food safety standard was the first standard to be GFSI benchmarked in 2000.

Our mission is to improve brand confidence through rigorous supply chain assurance services and, with over 28K certificated sites in 130+ countries, we are the Global Standard underpinning Brand Reputation through Compliance.

Under our vision of *Science For A Safer World* we work with brand owners, delivery partners and suppliers globally to ensure product quality and safety is of a high standard and overseen by our extensive compliance processes.

Over 185,000 non-conformities per annum are identified and corrected across all suppliers across the supply

chain in our drive for continuous improvement.

BRCGS has worked closely with many global brand owners over several years across food and non-food and have a large number of suppliers using our range of Standards. We remain a critical component of supply chain assurance.

Figure 1: BRCGS "Snapshot"

CERTIFICATED SITES	CORE SCHEMES	GLOBAL OFFICES	OPERATING COUNTRIES
28,200	7	5	130+
AUDITORS	ANNUAL AUDIT DAYS	HOURS SPENT ON FACTORY FLOOR	CORRECTED NON-COMPLIANCES
1,750	53,800	224,000	185,000
FOOD SAFETY CATEGORIES	ADDITIONAL MODULES	SITE RENEWAL RATE	SUPPLIER SHARED AUDITS
18	10	94%	8,000
APPROVED TRAINERS	NUMBER OF PEOPLE TRAINED	INTERNATIONAL CONFERENCES	E-LEARNING COURSES
260	4,627	2	14
BRC BOOKSHOP DOWNLOADS	SUBSCRIBERS TO BRC PARTICIPATE	TRANSLATIONS OF FOOD SAFETY	PUBLICATIONS
101,046	4,473	16	65

In a recent supplier survey (1) it was recognised that BRCGS sets the benchmark for trust and its products, whilst rigorous, can bring additional new business and reduce costs.

Figure 2: Supplier Customer Feedback



BRCGS Consumer Products

In 2015 the retailer engaged with BRCGS on the technical working group to revise and rewrite Consumer Products issue 3, into a more industry focussed standard that brand owners would use as part of their supply chain assurance programme.

In 2016 issue 4 was published in two standards covering General

Merchandise and Personal Care and Household.

The standards were designed to cover two levels – Foundation and Higher Level which offered brand owner choice based on product risk whilst enabling a pathway for supplier development and continual improvement.

Figure 3: Consumer Product Standards



The requirements encourage a quality assurance approach, based on hazard analysis and risk assessment principles, rather than on emphasis on final product testing. When adopted correctly this reduces cost of failure across the 21 product categories.

Features to improve the actual buying expectations of brand owners such as an interim report for sourcing teams to decide on a go/no go soon after the actual audit was built into the program.

The usual rigour, that is a fundamental part of all BRCGS schemes, was applied and auditor selection was revised to ensure the right level of technical manufacturing knowledge for the products produced. Auditor competence was also related to relevant work experience, education and professional qualifications.

Brand Owner Testimonials

"I'm extremely pleased to see the new risk management-based system is

ready to launch and think it will be a great industry standard for manufacturers, brands as well as retailers. Walmart Global Sourcing will immediately begin accepting certifications under the new standard from our suppliers in place of our Factory Capability and Capacity Audit (FCCA). We hope that it will rapidly gain global adoption with many brand owners in the same way Global Foods Safety Initiative (GFSI) has in the food industry, to create a common benchmark for all types of consumer goods". Walmart Global Sourcing, China

"The introduction of issue 4 of the Foundation level for Consumer Products is a great step forward to encourage the use of the BRCGS standard, particularly in Asia. Waitrose looks forward to working together with BRCGS to develop the future potential of manufacturers and accelerate good manufacturing standards which will benefit us all." Waitrose, UK

"The new BRCGS for Consumer Products Issue 4 will help us to mainstream a basic safety level for the non-food products that we offer our customers. The flexibility in the Standard to adapt to the specific use of the product and to the production process facilitates our suppliers to have a specific, efficient and meaningful certification in place". Ahold Delhaize, Netherlands

Supplier Survey – May 2018

BRCGS conducted a survey to all suppliers using the Standard to assess the impact. Here are some highlights:-

- 100% of sites rated the standard as important or very important to their business and their customers.

- 63% of sites scored 8 or over (out of 10) for improving audit readiness and staff compliance.
- 50% of sites scored 8 or over (out of 10) on gaining greater customer confidence and global recognition.
- 47% of sites have seen up to 20% reduction in product testing since implementing the standard.
- 75% of sites scored 4 or over (out of 5) on a reduction in frequency and volume of product testing as the main benefit of using the standard.

2nd Party versus BRCGS Consumer Products

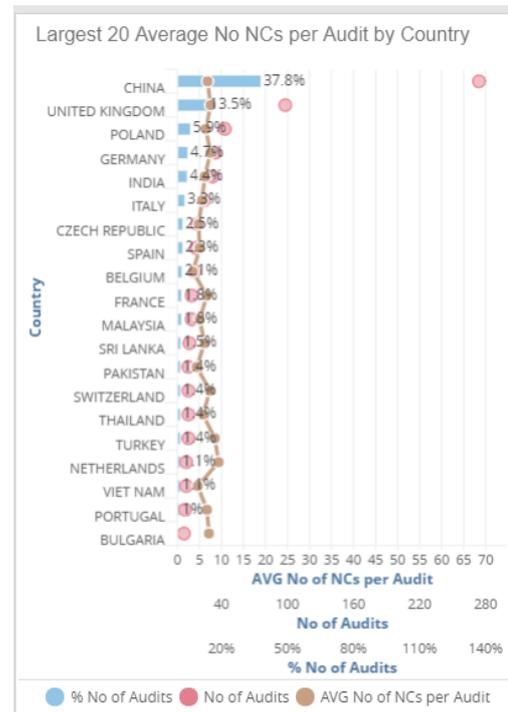
The comparison of both audit requirements reveals that there were several new areas that were included using the new standard – namely Senior Management Commitment and Product and Process Risk Management.

A capability and capacity assessment supplement were also introduced specifically for the brand owner to complement their 2nd party approach.

In addition, the governance of the scheme was very different. Audits and certificates are accredited offering international recognition and there are more selective auditor requirements with specific training and calibration. The program includes the review of corrective actions and closure of all non-conformities reducing workload for recipients of the audit reports.

New digital tools offered by BRCGS was also a value-added service to performance benchmark suppliers against similar sites in the rest of the world.

Figure 4: Current Suppliers Operating to Consumer Products Issue 4 by country



The Pilot

In August 2017 the next generation of assessments was announced to suppliers. The brand owner wanted to use an internationally recognised standard as an alternative to their 2nd party scheme

The scope of the pilot program was for Direct Import Suppliers sourcing product for USA, Canada and UK retail markets.

The scheme was voluntary.

The objective was to determine whether the brand could obtain more reliable information to make the right sourcing decisions and to align with industry trends in product quality, safety and manufacturing standards.

Potential candidate sites were manufacturers of general merchandise who had ISO 9001 certification.

Three Certification Bodies who had been conducting 2nd party audits were briefed and auditors recalibrated and trained to audit to the new standard.

The retailer then communicated this out to suppliers and handed sites to the three CBs on a regular basis.

To support the project, BRCGS helped provide supplier briefings and created onboarding packs that contained links to the standard, checklists and presentations explaining the changes.

To make the audit costs equitable, BRCGS negotiated a man day rate that was comparable to the 2nd party audit, which was typically one day.

Initial Results

After 18 months the pilot has resulted in 134 audits from 96 factories from 71 suppliers opting to move to the BRCGS standard.

This is 4% of the total and the transition has been slowed down by a number of factors:-

- i) The standard was voluntary.
- ii) There is a modest increase in audit cost owing to the CB admin and BRCGS upload fees which further increases if a supplier has to have an annual audit.
- iii) The new standard was perceived to be more difficult to achieve.
- iv) Certification Bodies had internal competition between teams that were structured in retail and certification business units that caused initial problems.
- v) Certification Bodies generally resisted the change from 2nd Party to 3rd Party as a more competitive open market was regarded as a potential threat.
- vi) We encountered issues with correct registration of auditors,

which limited the addressable market.

However, despite the lower than anticipated supplier numbers we were able to measure the benefits of moving to a different set of protocols.

Certification Body Survey – February 2019

A recent survey of suppliers that had switched to the new standard for over 12 months highlighted some key benefits and reinforced some of the current challenges.

Positives:

- Half of the suppliers agreed that after auditing, the product pass rate increased.
- The customer complaint rate decreased 5% or remained the same.
- 95% of the sites gained a practical understanding about traceability and production environment management best practice.
- Sites liked the clear instruction style of the requirements, rather than the ISO open to interpretation written statements
- All the suppliers obtained awareness of risk assessment to identify potential risks from the product design to finished product.
- 90% of sites prefer an annual audit and would recommend other suppliers to join the program.
- The audit experience enriched the quality team cohesion, making it a company goal to achieve certification.
- 15% of suppliers fed back that existing clients would now like to expand their business or they received new business.

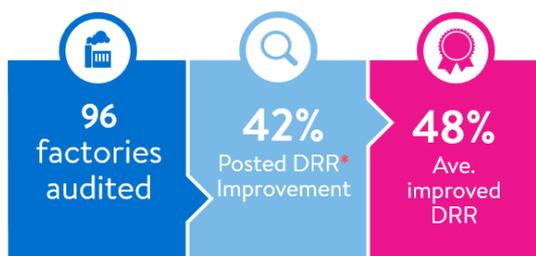
Challenges:

- Audit burden still an issue with multiple customers wanting similar 2nd party QMS style audits.
- The cost of audit is more expensive if they move to an annual cycle.
- Suppliers were not aware of other brand owners that accepted BRCGS to generate more new business at no additional cost.

Supplier Performance Data

One of the most marked benefits of using the new 3rd party product is the marked improvements in Defective Return Rate. Overall, sites that had gone through a different audit process had seen significant shift that would benefit both the brand owner and the supplier through better supply, less product rework and testing.

Figure 5: Defective Return Rate



*DRR- Defective Return Rate

At the time of writing the paper, data relating to customer complaints was not available.

However, reviewing the same sites that had gone through the two audit processes, there was an increase in comparable scores, with more suppliers exceeding 80 in the 2nd party score.

Benefits to the Brand Owner

1. Increase Efficiency

Auditor and Report Management

BRCGS worked with the Certification Bodies to ensure that the reports are all managed through our digital platform. The brand owner does not have to spend unnecessary time chasing or emailing reports or communicating with suppliers.

BRCGS and our partners onboard new suppliers in the program and help with the standards (available in Mandarin, English and German), the training, the gap analysis and finally the certification.

All auditors are managed through our global compliance team who also provide short notice site audits based on direct feedback or required in high risk areas.

In terms of administrative burden, the brand owner will spend time ensuring the right documentation is in place which invariably takes focus away from core tasks.

Based on an average of 30 mins per site, this represents a total time of 1783 hours, or one administrator per annum, a saving of 26K USD.

This cost disappears as the administration is handled by BRCGS and its delivery partners.

Corrective Action Management

Currently the global sourcing team manage all non-conformities, compared to the BRCGS system where all corrective action plans must be approved and completed before the supplier is certificated.

On average the global sourcing team spend 2 hours per site per annum which would be a direct saving and would allow a change in focus from basic quality and safety conversations to more valuable supplier engagement including process development and product innovation.

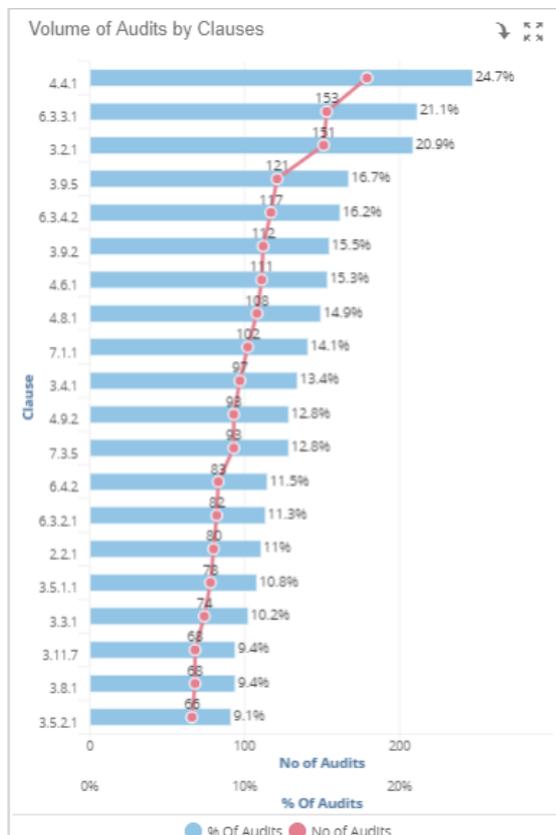
This represents over 7K hours or 4-man days. The equivalent of 208K USD per annum, based on 52K USD salary cost per technical person.

Non-Conformity Trend Analysis

Using our unique analytical tools BRCGS can very quickly track trends in all types of non-conformities, segmented by country and product category.

Trace One Insight is a tool we use to calibrate auditors, review trends and issues across our global sites.

Figure 6: Common Non-Conformity Trends



2. Increase in Quality

Compliance & Governance

BRCGS operates a sophisticated global compliance operation which services to strengthen the quality of the audit.

Through a series of activities that include post audit surveys, "Tell BRCGS" a whistleblowing option, a new analytical tool used for non-conformity tracking, trends and auditor calibration, auditor category exams (for the Food Safety Standard currently) and finally, a global compliance audit team that can conduct audits at short notice are all tools used to create brand confidence.

Auditor Quality

BRCGS auditors are trained to a higher level and, as feedback demonstrates, can help the suppliers attain best practice and drive the cycle of continuous improvement.

As a result, suppliers to the retailer will have a better audit experience through better auditors that will identify potential issues.

This will allow the brand to assess the supplier through a better auditing experience which will give them greater assurance and brand confidence.

Internationally Recognised Standards

BRCGS have been at the forefront of standards development over the last 20 years and have a track record of innovation. We were the first to introduce food fraud, food safety culture, unannounced audit and auditor category exams.

Many global brands already use the range of BRCGS products for supply chain assurance products from Food

Safety, Storage & Distribution, Agents & Brokers and Packaging and therefore the successful adoption of Consumer Products gives complete end to end product supply chain management .

International experts have designed the standard for safety and quality professionals to adopt. Written by experts for technical professionals.

Right First Time Approach

The requirements for the foundation level general merchandise is a comprehensive scope covering product quality, safety and compliance.

The emphasis is on quality assurance with a series of connected steps, if managed correctly will give greater assurance that the final product meets the legal and customer requirements.

Unnecessary product redesign, production and final testing creates supply chain disruption which can be minimized.

Continuous Improvement

Apart from the two levels within the standard, our digital tools can compare current suppliers with the rest of the world and use audit content to drive performance. Rich content is easily exportable and shared across the organisation that will give valuable insights into the suppliers that currently would be difficult to achieve.

Supply chain performance can be monitored and used with current KPIs to create a holistic 360 view.

3. Decrease in Costs

Brand Owner Acceptance

With a growing number of brand owners accepting or mandating the standard, the supplier will have the advantage of audit reduction costs. An internationally recognised 3rd party standard will create benchmarking and improve brand confidence through greater levels of continual improvement.

Engagement with brands is continuous and the impact to a supply chain is gradual. Here is a list of brand owners that either accept, specify or where we are in direct discussions currently.

Figure 7. Brand Owner Acceptance



Product - Time to Market

Multi-disciplinary procurement teams are a mix of technical, ethical, marketing, sales and buyers and are focussed on reducing time to market to capture market share.

The interim report function is designed to allow the procurement team to make the right decision on whether to take product from the supplier.

Whilst the 2nd party reports can be available in only 3-5 days and the BRCGS interim report is available in 10 days, the more comprehensive report has a far greater detail, including all auditor comments on non-conformities and the resultant corrective actions.

Supply Chain Disruption

Product recalls will cost the business an average of \$10M per recall (2), which coupled with product withdrawals and a lack of supply and other disruptions will affect supply.

Having a more rigorous audit will potentially reduce the risk of supply chain disruption.

Conclusion

The current pilot does demonstrate benefits for both the supplier and the brand owner, although the transition is currently low.

The 3rd party model creates significant improvements in efficiency and quality whilst reducing a large potential cost for the brand.

The brand owner will ultimately have more time to develop suppliers and partner with them to develop innovative cost-effective products. The burden of running a 2nd Party scheme becomes lifted to be replaced with a better style of audit, with a better auditor which will drive quality and continual improvement.

Recommendations

The transition pace needs to increase and the supplier needs to make the right choice in standards selection.

The main areas that need to be addressed are the cost and the style of communication to both the Certification Bodies and Suppliers.

Communication to Suppliers

Based on the early findings and potentially other changes to the supplier process, it is recommended that either a change in policy or a restatement of intent is needed to drive further adoption.

The standard may still be one that is approved, but if the brand sees the direct benefits of cost savings, whilst effectively improving the supplier quality and safety eco-system, then a change in wording and emphasis would be needed.

Communication to Certification Bodies

It is recommended that the brand owner restate their pilot objectives. If they wish to accelerate the program, then make that clear to the three main Certification Bodies and other partners

Reduction in Inspection & Testing Costs

An area that was suggested by the retailer was to introduce a credit-based system that would determine the level of post audit testing.

For direct imports there is a defined regime of pre-production testing, production testing, final inspection and in-store testing.

It is recommended that a change in frequency for suppliers operating at a higher standard would be a lever to overcome the initial costs and accelerate adoption.

Annual Audits

In our experience over the past 20 years, we recommend that all audits at least every 12 months, or 6 months if they drop below a certain level.

In a supplier cycle 24 months is a long time to go without an audit and

represents a risk with the current 2nd party program.

Move to Higher Level Requirements

The 48% improvement in defective return rate can be further affected by introducing the higher-level certification within Consumer Products. It is anticipated that a supplier operating at this higher level will further improve the DRR to the advantage of both the brand owner and supplier.

References

1. BRCGS Supplier Survey, November 2017
2. Recall Execution Effectiveness: Collaborative Approaches to Improving Consumer Safety and Confidence, Deloitte, May 2010